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NOISE AS THE IMPACT OF TRADING MECHANISM AND PERIODIC CLEARING PROCEDURES: SUBSTANTIVE EVIDENCE FROM INDONESIA STOCK EXCHANGE

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ABSTRACT

Sumiyana (2007b) investigates that noises occurred in Indonesia Stock Exchange. Especially, Sumiyana's research concludes that noise over trading and nontrading period, along with overnight and lunch break nontrading session, and the first and second trading session, had occurred. However, Sumiyana's research does not identify who are responsible for the noise. This research used intraday data in Indonesia Stock Exchange. Samples of the data are the firms consecutively listed in LQ 45 indexes for the year of 2004-2006.

This research attempts to identify who are responsible for the noise. This research studies effects of trading mechanism and clearing mechanism on the stock return behaviour. Finally, this research is enabling to differentiate the effect of trading mechanism from the effect of clearing mechanism. This research concludes that periodic clearing procedure at the beginning of the trading period is noisy. Therefore, this research suggests that trading mechanism in Indonesia Stock Exchange is inefficient. This research also hopefully recommends shifting from the periodic to continuous trading mechanism.

Keywords: *Intraday data, trading mechanism, trading and nontrading periods, stock return behaviour, noise, negative autocorrelation, clearing mechanism, periodic clearing procedure.*